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R 160118Z DEC 08
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TO RUEHC/SECSTATE WASHDC 7433
INFO RUEHBJ/AMEMBASSY BEIJING 2357
RUEHCN/AMCONSUL CHENGDU 1609
RUEHGZ/AMCONSUL GUANGZHOU 0068
RUEHHK/AMCONSUL HONG KONG 1776
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USDOC FOR ITA/MAC DAS KASOFF AND OCEA - SZYMANSKI

E.O. 12958: N/A
TAGS: [ECON](#) [EFIN](#) [EINV](#) [SCUL](#) [CH](#)
SUBJECT: NBA FULL COURT PRESS IN SHANGHAI

REF: A. (A) SHANGHAI 498
[1](#)B. (B) SHANGHAI 513

Summary

[1](#)1. (SBU) The National Basketball Association (NBA) continues its rapid expansion in China. The NBA is attempting to transform itself from a marketing giant in the Chinese market into a financial partner dedicated to running arenas and domestic basketball leagues. Executing this game plan has led to growing pains similar to those facing other businesses investing in China, as many of the NBA's local Chinese partners are not performing up to the league's expected standards. End Summary.

Fast Paced Expansion

[1](#)2. (SBU) NBA China continues to rapidly expand. The global economic slowdown has apparently not dampened hiring, as the Shanghai office has doubled its staff in the last eighteen months to over fifty positions. NBA China's expansion is in stark contrast to the recent press reports announcing layoffs of eighty NBA employees in the United States.

NBA Arena Experience Comes To China

[1](#)3. (SBU) The NBA has partnered with AEG, a subsidiary of Anschutz Company, to run 12 planned arenas across China. This includes an arena being built for the Shanghai World Expo in [1](#)2010. Colin Pine, a manager at NBA China, said that the NBA will provide marketing and management expertise to ensure that

these new venues provide entertainment on a world class level.

A Socially Responsible Presence

¶4. (SBU) In addition to running new sports arenas, NBA China is partnering with local governments to help build 800,000 new basketball courts across China. Prior to the 2008 Beijing Summer Olympics, the NBA hosted a Team USA charity auction in Shanghai to raise money for victims of the May 2008 Sichuan earthquake. In addition to the proceeds from items auctioned, basketball star Dwayne Wade announced a personal donation at the event.

Extra Courts For A Growing Fan Base

¶5. (SBU) Building new courts helps the NBA expand its fan base by making it easier to play basketball in China. Local governments are supportive because it increases the number of public facilities at minimal costs to their budget. Public sporting facilities are in short supply and basketball courts in

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Shanghai are frequently crowded with dozens of teenagers waiting for a single basket. Media sources estimate that over 300 million Chinese play basketball on a monthly basis, and the NBA estimates that it has over 450 million fans in China.

¶6. (SBU) On a visit to a recently opened public court in Shanghai Congenoff spoke to a number of teenagers who said finding a place to play is their biggest frustration. They spent their time waiting for their turn to play discussing basketball shoes including if the extra money for Adidas and Nike was worth the cost compared to improving local brands such as Peak and Li Ning. There are indications that interest in the NBA in Shanghai has intensified. HoopChina.com, an independent message board website dedicated to following the NBA, has 2.5 million users that login to the site at least twice a week, according to web interviews of founder Shawn Cheng. Taxi drivers in Shanghai often listen to NBA score reports. They enjoy discussing their favorite players and particularly which team LeBron James will play for in 2010 when he is a free agent.

A League Of Their Own

¶7. (SBU/PROPRIETARY INFO) Pine said that NBA China is in negotiations to form a partnership enterprise with the Chinese Basketball Association (CBA) to develop the CBA into a more profitable and sustainable enterprise. Involvement with the CBA is seen as a way to improve the quality of Chinese teams while reducing their dependence of government financing. These negotiations are considered highly sensitive by NBA China and the proposal has not yet been made public.

18. (SBU) Locally developed athletic apparel brands Li Ning, Peak, and 361 Degrees, appear poised to capture an increased market share of the Chinese youth market. In 2008 Peak signed US Olympian Jason Kidd and Li Ning signed Los Angeles Clippers' guard Barron Davis for Chinese advertising purposes. While both companies are currently using U.S. players to promote their brands in China, press reports indicate that they are looking to break into the U.S. market as more NBA players use their apparel.

Not Just Sportswear, NBA Kleenex And Chewing Gum

19. (SBU) Pine said that merchandising partnerships with Vinda (a Chinese paper tissue company) have been going well. Additional NBA labeled merchandise such as an NBA chewing gum with another company will be launched soon. The national broadcaster CCTV carries five live NBA games per week. The NBA China website provides free streaming video of games. As stateside games take place during the morning in China, streaming video allows the rising number of white collar fans to watch the games at work. The NBA also has sponsorship agreements with Juneyao Airlines and many of China's most famous brands advertise during the games. The large audience was used by a local milk company to try to reassure customers in light of the recent melamine scandal. In one commercial they said the word "safety" 19

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times. (See also Refs A and B.)

Not All Slam Dunks, Difficulties With Local Partners

110. (SBU/proprietary information) A senior manager at NBA China, informed Congenoff that NBA China is having serious problems with its domestic merchandise distributor Juneyao. He said that Juneyao frequently chooses retail store locations based on their relationship with local landlords rather than the market potential for selling NBA merchandise. This fall, Juneyao made a presentation to senior NBA management saying NBA stores would open in early 2009 in Shanghai. The manager expressed frustration when in early December Juneyao said they wanted to open two stores in less than a week, without giving the NBA any notice of the change of schedule. He said the launch of these flagship stores are important events to the NBA. The change in schedule is making it difficult for NBA China to carryout the launch in accordance with their standards. Another NBA China senior manager said that he felt the only reason that Juneyao partnered with the NBA was to lend an appearance of professionalism to the company in preparation for its IPO. They said that NBA China is not happy with the level of merchandise sales and is considering other options for handling merchandise.

111. (SBU) Note: Juneyao is a company of growing importance in the Shanghai Consular district. Founded in Wenzhou, Zhejiang Province, the ambitious airline subsidiary has announced in local press the goal of being an international carrier by 2010,

including future service to the United States. The company's retail arm has been preparing for an IPO that is currently on hold because of the global economic credit shortage. Juneyao is well connected having received the right to run the Beijing Summer Olympics and Shanghai Expo merchandising stores. End Note.

Comment

112. (SBU/proprietary information) China is the NBA's largest market in terms of the number of fans. NBA China's expansion has encountered difficulty as they try to protect their brand value. Providing full length games free via streaming video has helped bring traffic to their website, has increased their advertising revenue and allows them to direct fans to other NBA generated content. Managers at NBA China consider their merchandising division to be underperforming in large part because of difficulties with Juneyao.
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